

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75494; File No. SR-NYSEArca-2015-38)

July 20, 2015

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Approving a Proposed Rule Change Adopting New Equity Trading Rules Relating to Trading Sessions, Order Ranking and Display, and Order Execution to Reflect the Implementation of Pillar, the Exchange's New Trading Technology Platform

I. Introduction

On April 30, 2015, NYSE Arca, Inc. (the "Exchange" or "Arca") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to adopt new equity trading rules relating to Trading Sessions, Order Ranking and Display, and Order Execution to reflect the implementation of Pillar, the Exchange's new trading technology platform. The proposed rule change was published for comment in the Federal Register on May 19, 2015.³ The Commission received no comment letters on the proposed rule change. On June 23, 2015, pursuant to Section 19(b)(2) of the Act,³ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁴ This order approves the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4

³ See Securities Exchange Act Release No. 74951 (May 13, 2015), 80 FR 28721 ("Notice").

³ 15 U.S.C. 78s(b)(2).

⁴ See Securities Exchange Act Release No. 75273, 80 FR 37033 (June 29, 2015).

II. Description of the Proposed Rule Change

The Exchange proposes to adopt new equity trading rules relating to the implementation of Pillar, the Exchange's new trading technology platform. The Exchange proposes to adopt the following new Pillar rules: 1) NYSE Arca Equities Rule 7.34P ("Rule 7.34P") related to trading session; 2) NYSE Arca Equities Rule 7.36P ("Rule 7.36P") related to order ranking and display; and NYSE Arca Equities Rule 7.37P ("Rule 7.37P") related to order execution. According to the Exchange, these three rules would set forth the foundation of the Exchange's equity trading model in Pillar, including the hours of operation, how orders would be ranked and displayed, and how orders would be executed.⁵

A. Background

The Exchange represents that Pillar is an integrated trading technology platform designed to use a single specification for connecting to the equities and options markets operated by Arca and its affiliates, New York Stock Exchange LLC and NYSE MKT LLC. NYSE Arca Equities will be the first trading system to migrate to Pillar.⁶ The Exchange states that during the first phase of Pillar implementation, it will roll out the new technology platform over a period of time based on a range of symbols.⁷ Because orders entered in symbols not yet migrated to Pillar would continue to operate under current rules, the Exchange will keep its current rules, pending complete migration of symbols to Pillar and retirement of the current trading system, and will add new rules that would be applicable to symbols that trade on the Pillar trading platform.⁸

⁵ See Notice at 28722.

⁶ See Notice at 28722; see also Trader Update dated January 29, 2015, available here: http://www1.nyse.com/pdfs/Pillar_Trader_Update_Jan_2015.pdf.

⁷ See Notice at 28722.

⁸ Id.

As proposed, the new rules governing trading on Pillar would have the same numbering as current rules, but with the modifier “P” appended to the rule number. The Exchange proposes that rules with a “P” modifier would operate for symbols that are trading on the Pillar trading platform. If a symbol is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier would no longer operate for that symbol and the Exchange would announce by Trader Update when symbols are trading on the Pillar trading platform. Definitions that do not have a companion version with a “P” modifier would continue to operate for all symbols. The Exchange has stated that once all symbols have migrated to the Pillar platform, it will file a rule proposal to delete rules that are no longer operative.⁹

B. Proposed Modifications

The Exchange represents that it is not proposing that the core functionality of rules applicable to trading on Pillar would be different from rules applicable to trading on the current NYSE Arca Equities trading system.¹⁰ As described in detail in the Notice, Rules 7.34P, 7.36P, and 7.37P incorporate much of the substance of current NYSE Arca Rules 7.34, 7.36, and 7.37, respectively. However, with Pillar, the Exchange would introduce new terminology, reorganize and redraft certain provisions to improve clarity, and provide additional detail to other current provisions being redesignated.¹¹ The Exchange also proposes to make several changes that are more substantive in nature, as follows:

- the Core Open Auction would occur during the Core Trading Session, rather than during Early Trading Session;¹²

⁹ Id.

¹⁰ Id.

¹¹ See id. at 28723-31.

¹² See proposed rule 7.34P(a)(2); see also Notice at 28723.

- Tracking Orders would now be permitted to participate in the Early Trading Session;¹³
- during the Early Trading Session, for securities that are not eligible for an auction on the Exchange, all Market Orders designated for the Core Trading Session and Auction-Only Orders would be routed to the primary listing market on arrival (unless the market is not accepting orders), whereas currently this only occurs if orders include a “Primary Only” designation;¹⁴
- Market Orders in securities that are not eligible for the Core Open Auction will be routed to the primary listing market until the first print of any size (the current rule does not specify that the first opening print can include an odd-lot transaction) on the primary listing market, and the Exchange would now stop routing Market Orders to the primary listing market and begin processing those orders on the Exchange at 10am EST;¹⁵
- during the Core Trading Session, Auction-Only Orders in securities that are not eligible for an auction on Arca would be accepted and routed directly to the primary listing market,¹⁶ whereas currently this only occurs if orders include a “Primary Only” designation;
- Tracking Orders would now be eligible to participate in the Late Trading Session;¹⁷ and
- an order marked “short” when a short sale price test restriction is in effect would not be routed and would be repriced or cancelled.¹⁸

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act¹⁹ and the rules and regulations thereunder applicable to a

¹³ See current rule 7.34(d)(1)(C), which would not be carried over to proposed 7.34P; see also Notice at 28724.

¹⁴ See proposed rule 7.34P(c)(1)(D); see also Notice at 28724.

¹⁵ See proposed rule 7.34P(c)(2)(A); see also Notice at 28725.

¹⁶ See proposed rule 7.34P(c)(2)(B); see also Notice at 28725.

¹⁷ See current rule 7.34(d)(3)(C), which would not be carried over to proposed 7.34P; see also Notice at 28725.

¹⁸ See proposed rule 7.37P(b)(8); see also Notice at 28730.

¹⁹ 15 U.S.C. 78f.

national securities exchange.²⁰ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²¹ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest and that the rules are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission notes that the Exchange believes that the proposed rules would remove impediments to and perfect the mechanism of a free and open market because the proposed rule set would promote transparency by simplifying the structure of Exchange rules and using consistent terminology governing equities trading, and by clearly denoting the rules that govern once a symbol has been migrated to the Pillar platform.²² With respect to proposed Rule 7.34P, the Exchange represents that it believes that the proposed changes to functionality would remove impediments to and perfect the mechanism of a fair and orderly market.²³ With respect to proposed Rules 7.36P and 7.37P, the Exchange stated that it believes that the proposed rule text promotes transparency through the use of consistent terminology that will serve as the foundation for additional Pillar-related rule proposals, and by providing notice of when orders would be accepted, routed, rejected, cancelled, or be assigned a working time by the Exchange.²⁴

²⁰ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²¹ 15 U.S.C. 78f(b)(5).

²² See Notice at 28732.

²³ See id.

²⁴ See id.

Based on the Exchange's representations, the Commission believes that the proposed rule change does not raise any novel regulatory considerations and should provide greater specificity with respect to the functionality available on the Exchange as symbols are migrated to the Pillar platform. For these reasons, the Commission believes that the proposal should help to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁵ that the proposed rule change (SR-NYSEArca-2015-38) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁶

Robert W. Errett
Deputy Secretary

²⁵ 15 U.S.C. 78s(b)(2).

²⁶ 17 CFR 200.30-3(a)(12).